Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Federal-State Joint Board on	)	CC Docket No. 96-45
Universal Service	)	

COMMENTS
OF THE
UNITED STATES TELEPHONE ASSOCIATION

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SUMMARY

Separate funding mechanisms should be established to ensure that the core set of universal services are provided in rural, insular high cost and unserved areas; to provide special services for schools and libraries; to provide special services to rural health care providers; and to provide the core services to low income customers. Contributions to the funds should be made by all providers of interstate telecommunications services based on interstate retail revenues and be assessed as a surcharge on all retail transactions included in the funding base.

The provision of special services to qualified schools and libraries must involve those entities, all levels of government as well as all telecommunications service providers, information providers and equipment manufacturers. In order to achieve the purposes of the Act, connectivity, inside wire, hardware, software, training, removal of cultural/societal barriers and ongoing operations support are required. The universal service funding mechanism should fund the provision of telecommunications services based on the KickStart Lab model. However, the other costs must be determined and recovered. USTA proposes that the bona fide request of qualified entities include all seven items. A state agency should be responsible for distributing the funds for the telecommunications item to schools within each state. The Joint Board and the FCC with the advice of educators should determine how to allocate the fund equitably among the states.

In order to capture all rural health care providers, the Census Bureau definition should include places of 25,000 or more population outside of urbanized areas, including areas served by rural telephone companies. In order to ensure that the rates charged to rural health care providers are reasonably comparable, the rates for rural health care providers should be equal to the statewide average of the rates

for the particular service requested. A separate federal fund should be used to recover the difference between the reasonably comparable rate that rural health care providers are charged and the rates that are charged for the same service to other rural customers.

The core set of services which should be used to support universal service in high cost, rural, insular and unserved areas should initially include: voice grade access (residence and business) to the public switched network to enable a customer to place and receive calls (loop, switching and transport); touch-tone; single party service; white page directory listing; access to operator service and directory assistance and access to emergency services (such as 911/E911).

In order to assist in ensuring that the rates for the core services are affordable and reasonably comparable, the FCC and the Joint Board should establish a fund to recover the interstate portion of the loop costs of serving high costs, insular, rural and unserved areas that are above an affordability benchmark. An interstate affordability benchmark equal to the nationwide average loop cost to replace the current EUCL caps will meet those goals.

In order to better assure affordability in rural areas, the current USF and DEM weighting should be continued for rural telephone companies only. These explicit mechanisms will assist only those companies that lack economies of scale and scope to deaverage prices over their service areas.

All loops would be treated the same. In non-rural telephone company areas, other eligible carriers should receive the same level of support per line as the incumbent. In rural telephone company areas, if permitted, other eligible carriers would receive support based on their own costs. Interstate high cost support per line would equal the difference between the amount of interstate loop cost per line for the service area and the benchmark level. Non-rural telephone companies would calculate this amount at implementation after which the amount will be frozen. In a rural telephone company serving area the

amount would be calculated annually.

A four year transition to implement this funding mechanism is necessary. As EUCL prices are rebalanced, CCL prices will be adjusted to recover the difference between the EUCL price and the benchmark. CCL will be eliminated at the end of the transition. LTS should continue to recover the difference between the nationwide average interstate CCL price during the transition and the CCL price for exchange carriers participating in the NECA common line pool. LTS will decrease as EUCL prices are rebalanced and will be eliminated at the end of the transition. USF and weighted DEM for non-rural telephone companies would be frozen during the transition and eliminated thereafter. The cap on USF should expire.

The states should be encouraged to permit exchange carriers to rebalance intrastate rates to assist in the removal implicit support and to establish universal service support mechanisms. State development of compatible mechanisms will be required to achieve affordability of the customer's total service in high cost areas.

The core set of services will meet the needs of low income customers. The usefulness and effectiveness of existing programs offered by exchange carriers before any new requirements are imposed. Current low income programs must be expanded to include other eligible carriers and their customers.

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The United States Telephone Association (USTA) respectfully submits its comments in the above-referenced proceeding. USTA's member companies have been the sole providers of quality and affordable universal service through the implementation and maintenance of the public switched network. Local exchange carriers have invested over $280 billion to build the ubiquitous public switched telephone network which includes over 150 million access lines and has provided a nationwide service penetration level of approximately 94 percent[1]

The Telecommunications Act of 1996[2] reaffirms the traditional universal service policy that telecommunications services should be available to consumers in all regions of the Nation at just, reasonable and affordable rates. The Act, however, specifies that the traditional public policy be achieved through the development of a national definition of core universal services, the provision of special services[3] for schools, libraries and rural health care providers and the creation of specific, predictable and

[1]USTA Ex Parte Letter filed February 9, 1995 in CC Docket No. 80-286.

[2]Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (1996) (to be codified at 47 U.S.C. §§ 151 et seq.). [Act].

[3]USTA uses the term special services to denote those additional services to be provided to schools, libraries and rural health care providers.

sufficient federal and state universal service support mechanisms.[4] Separate, explicit funds will be required to provide the core set of universal services in rural, insular, high cost and unserved areas; to provide special services for schools and libraries; to provide special services to rural health care providers; and to provide the core services to low income customers.[5]

I. UNIVERSAL SERVICE PRINCIPLES: A COMMUNICATIONS BILL OF RIGHTS.

USTA wholeheartedly agrees with Chairman Hundt that the universal service principles contained in the Act of 1996 could constitute a 'Communications Bill of Rights'.[6] Assurance of universal service is the most significant public policy issue that the FCC will address given rapidly increasing competition.[7] Some of those principles are discussed below.

A. Quality and Affordable Rates.

These two concepts are essential components of universal service policy. 'Quality services' is certainly not a new concept for exchange carriers. Customers should not suffer any degradation in service quality due to a change in service provider. In a competitive environment, the marketplace will be the most effective tool to influence service quality, as customers will be able to choose providers based on that factor. State regulators, who will be responsible for designating carriers eligible to receive support to

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[4]None of the Commission's proposed options as described in its previous proceeding, Amendment of Part 36 of the Commission's Rules and Establishment of a Joint Board, Notice of Proposed Rulemaking and Notice of Inquiry, 10 FCC Rcd 12309 (1995), are sufficient to fulfill either the intent or the requirements of the Act.

[5]A separate fund should also be established to handle the costs of numbering administration and number portability pursuant to § 251(e)(2) of the Act.

[6]Speech by Reed Hundt, Chairman, Federal Communications Commission, Iowa Distance Learning Association, Third Annual Conference, March 1, 1996.

[7]USTA Comments filed October 10, 1995 in CC Docket No. 80-286.

provide universal service, should consider the quality of universal service as not only consistent with, but essential to, the public interest, and require all carriers seeking eligible status to meet the same provisioning and quality standards.[8] States should also be responsible for monitoring service quality performance. Service quality and performance should reflect unique circumstances, such as geography and local community expectations.

The majority of states have adopted service quality standards and require exchange carriers to report the results of service quality measurements.[9] At the federal level, service quality reporting is required in the current ARMIS and price cap reports. In addition, NECA and the Rural Utilities Service (RUS) collect service quality data. Certainly, no new reporting at the federal level should be required of incumbent exchange carriers and in competitive areas, federal reporting should be eliminated. Optimally, current service quality reports should be consolidated and duplicative reporting requirements eliminated. Other eligible carriers, however, should be required to meet the same reporting requirements as incumbent exchange carriers at both the state and federal levels.

The second concept, affordability, is an essential consideration, given the acceleration of competition. Traditionally, regulators have ensured affordable local rates in many areas by requiring prices

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[8]§ 214 (e)(2).

[9]According to a recent report of the National Regulatory Research Institute (NRRI), state quality of service standards are becoming more stringent. See, Vivian Witkind Davis, Ph.D., "An Overview of Regulatory Issues in Telecommunications Service Quality", Presentation to the National Association of Regulatory Utility Commissioners (NARUC) Staff Subcommittee on Communications, Washington, D.C., February 24, 1996. NARUC has developed model service rules which include technical standards for installation of service, operator handled calls, network call completions, transmission and noise and customer trouble reports. Such rules could be used by states which do not currently have service quality standards. See, NARUC, "Telephone Service Quality Handbook", March 1992.

to be set lower than would be needed to recover the cost of providing service. Such affordable prices were extended to all customers in a particular area, regardless of their ability to pay for service. Competition makes it difficult, if not impossible, to sustain the implicit subsidies created to recover from other services and customers the full underlying cost of the local service. The Act requires that such support for the maintenance of universal service be explicit.

Public policy should address the level of customer expenditure necessary to obtain the defined universal services and to further the universal service principles without imposing severe economic impacts. An affordability benchmark, as will be described below to recover a portion of interstate universal service costs, should be used in order to better reflect the customer's expectation of a reasonable expenditure level for the receipt of universal services and to acknowledge that the price necessary to provide universal service should be part of the development of universal service support requirements. Costs above the affordability benchmark should be recovered through an explicit fund. This should be done at both the state and federal level. Of course, state and federal efforts should also be aimed at creating opportunities for exchange carriers to rebalance rates in a revenue neutral manner to remove implicit support.

B. Access to Advanced Services.

The public switched network built and maintained by exchange carriers currently provides access to advanced services. Advanced services should be dealt with in a separate proceeding pursuant to § 706 of the Act. Advanced services should not be included in the initial definition of universal service, but, in the future, may become part of the universal service definition as that definition evolves. Any new requirements to provide access to advanced services should be applied to all eligible carriers after careful assessment of demand and only if technically and economically feasible.

C. Specific and Predictable Support Mechanisms.

While the Joint Board must create federal universal service support mechanisms, the states should also establish universal service support mechanisms which are specific, predictable and sufficient. In order for universal service support mechanisms to be specific and predictable, they must be explicit, as is required by the Act. The explicit mechanisms should permit an eligible carrier to recover universal service costs that are not otherwise recovered by prices charged for the core universal services.

D. Additional Principles.

A foremost principle should be to rely on market forces to establish prices and develop new services. While any new universal service policy should continue to promote the widespread availability of telecommunications services, market forces, wherever possible, should provide the means to make this policy a reality. However, where competition does not develop and where the marketplace cannot achieve this policy goal, explicit support mechanisms are necessary to ensure that affordable universal service is maintained for all customers.

In addition, as the FCC suggests, the distribution of support should be undertaken in a manner which will not confer a competitive advantage on any particular carrier. This can be achieved by applying the same rules to all eligible carriers in a particular service area. Finally, the language of § 254(c)(1) through the use of the conjunction "and" plainly states that the Joint Board and the FCC shall consider the extent to which all four criteria are achieved when defining the services to be supported by federal universal service support mechanisms. In determining whether the telecommunications services are consistent with the public interest, the FCC should determine that the costs of including the service within the definition of universal service do not outweigh the benefits to be realized from the provision of the service.

II. SEPARATE FUNDING SHOULD BE ESTABLISHED TO ENSURE THAT SERVICES ARE PROVIDED TO SCHOOLS, LIBRARIES AND RURAL HEALTH CARE PROVIDERS IN A MANNER CONSISTENT WITH THE ACT.

Access to telecommunications services for schools, libraries and rural health care providers is essential to ensure that the world's resources of knowledge are available to all Americans. As Vice President Al Gore stated, the Information Superhighway "can save lives, create jobs, and give every American, young and old, the chance for the best education available to anyone, anywhere."[10]

A. Qualified Educational Institutions, All Levels of Government and Various Industries Must Cooperate to Bring Special Services to Schools and Libraries.

Exchange carriers have a long and successful history of bringing technology into America's classrooms. They have devoted significant resources to develop telecommunications capabilities throughout our educational system. Attachment 1 provides some examples of how exchange carriers are currently helping to improve educational opportunities.

No one disputes the benefits of providing special services to our Nation's classrooms and libraries. However, the provision of services as envisioned by the Act will not be realized without the cooperation of all segments of society, including qualified schools and libraries, all levels of government as well as all telecommunications service providers, information providers and equipment manufacturers. For example, while exchange carriers can provide network connectivity others, including interexchange carriers, cable operators and wireless telecommunications providers, may be involved in providing network connections as well. Various manufacturers will probably be responsible for hardware and equipment. Different software developers and on-line access providers may provide software packages and databases. Training

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[10]United States Advisory Council on the National Information Infrastructure, "KickStart Initiative, Connecting America's Communities to the Information Superhighway", January 1996 at p.5. [KickStart Initiative]. The KickStart Initiative should be included in the record of this proceeding.

will be required. No single entity can be responsible for all of the resources which will be required to successfully meet this Congressional mandate.

Seven major items must be considered and included in any effort to provide special telecommunications services to qualified schools and libraries to ensure that the particular services will be effectively utilized and, thereby, provide the full benefits to both students and teachers.

1) Connectivity: Lines must be in place so that qualified institutions can access the Information Superhighway. Outside lines are required to connect to the network.

2) Inside Wire: Inside wire is necessary to connect the individual classrooms and/or the computer lab.

3) Hardware: The necessary equipment, including telephones, computers, modems, televisions and VCRs, etc., must be available at each qualified institution.

4) Software: Computer software must be available to access information. This should include updating software as needed.

5) Training: Teachers, students and librarians must be taught to use the services provided in order to gain the most benefit from them. The necessary resource material must also be available.

6) Cultural/Societal Barriers: Special programs may have to be instituted to eliminate any such barriers.

7) Ongoing Operations Support: This will be necessary to ensure continuing quality and effectiveness.

All of these components are necessary to ensure the successful implementation of the benefits anticipated by Congress. If some of the components are omitted, the educational institution will not be able to fully utilize those which are selected and the investment will be wasted. The universal service funding mechanism should be limited to funding the provision of telecommunications services only. The other costs involved in ensuring the successful implementation of such a program, such as teacher training, software, and equipment, must be determined and recovered separately by the educational institution and

the community.

The U.S. Advisory Council on the National Information Infrastructure commissioned a cost analysis of all of the components listed above using several models.[11] For example, in the "Lab" model, connectivity would be to a computer room in each school. The Lab model includes 25 computers with 10 lines for each school at an initial cost of $11 billion, or approximately $225 per student, with ongoing costs of approximately $7 billion per year, or about $80 per student. The connectivity component of the model is approximately eight percent of the total amount for initial deployment and fifteen percent for ongoing costs. Over time, however, increased levels of usage could drive up the relative cost of connection.[12]

The Act requires that any telecommunications provider serving a geographic area[13] must provide special telecommunications services to qualified schools and libraries at a discount upon receipt of a bona fide request. In order to qualify as a bona fide request, the Joint Board and the FCC should require qualified schools and libraries to develop a comprehensive plan for funding, implementing and covering the ongoing costs of the seven components listed above. The costs of the telecommunications portion of the plan should be recovered through a federal universal service funding mechanism. A state agency would be

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[11]KickStart Initiative at pp. 89-105. Under the "Classroom" model every classroom of every public K-12 school would be connected to the Information Superhighway, with one computer available for every five children. This model would cost about $47 billion to implement by year 2005 or approximately $965 per student with approximately $14 billion per year, or $275 per student, in ongoing costs for a ten year deployment period. The cost analysis estimates the initial deployment costs to connect all public libraries in the U.S. to the Information Superhighway at $1.6 billion with $1.3 billion in ongoing costs.

[12]Id. at p. 90.

[13]Any telecommunications provider serving a geographic area is required to provide any of its services that are within the definition of special services at a discount. The term geographic area should be interpreted to mean the service area in which the qualified educational institution or library is located.

responsible for distributing the funds to schools within the state.[14]

Pursuant to this proposal, the Joint Board and the FCC should establish the size of the fund using the KickStart Lab model cost estimate as the total amount which will be distributed to qualified institutions within each state.[15] Use of this model will ensure that every qualified school and library in the country have the same initial telecommunications capabilities and that every qualified school and library are connected to the Information Superhighway. Contributions to the fund should be made by all providers of interstate telecommunications services based on interstate retail revenues and would be assessed as a surcharge on the customer bill. The Joint Board and the FCC should also determine, perhaps with the advice of a national organization of educators, how to allocate the fund equitably among the states. Finally, the Joint Board and the FCC should establish the criteria for the individual plans to ensure that all the components listed above are included and funding for each is determined. This will constitute a bona fide request as required by the Act.

The state agency should be responsible for ensuring that each plan meets the federal requirements, and for disbursing the appropriate funding to each school and library based on the individual plans. The state agency should ensure that rural schools and urban schools are treated in a non-discriminatory manner.

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[14]The appropriate state agency could be determined by the state or by a national organization of educators such as the Council of Chief State School Officers.

[15]Use of a fund to purchase tariffed state and interstate telecommunications services will enable qualified institutions to realize discounts in the price of services pursuant to the Act. This will avoid forcing exchange carriers to renegotiate all of their tariffs, while providing complete funding for connectivity embraced in the KickStart Initiative. An estimate of the costs for the KickStart Lab and Classroom models over a four year period is included in Attachment 2.

The major advantage of such a proposal is that it allows the individual schools and libraries to establish a comprehensive plan which best addresses the needs of their teachers and students. Each institution can tailor its plan to take advantage of existing capabilities and to meet unique circumstances. It provides the FCC with the opportunity to ensure that all educational institutions have an initial level of services that will meet the objective to connect all schools to the Information Superhighway. However, it requires the involvement of the community and other information, equipment and service providers as well as all levels of government to ensure that each plan can be successfully implemented to provide all of its intended benefits.

B. Support for Rural Health Care Providers.

While various telemedicine projects are underway or planned in the majority of states, § 254(h)(1)(A) seeks to ensure that rural health care providers have the same opportunities to receive telecommunications services that could assist them in delivering necessary medical care as health care providers in urban areas.[16] In order to determine what is "rural" for the purposes of this section of the Act, a modified version of the Census Bureau's definition for "urban" should be utilized. The Census Bureau currently defines urban as all territory, population and housing units in urbanized areas and in places (both incorporated and census designated) of 2,500 or more population outside of urbanized areas. Under this definition, it is likely that a majority of health care providers serving rural areas would be characterized as

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[16]According to a recent study by the NRRI, as of November 1994, telemedicine projects were underway in Alabama, Alaska, Georgia, Hawaii, Idaho, Kansas, Massachusetts, Missouri, Montana, Nebraska, New Jersey, New York, North Carolina, Oklahoma, South Carolina, South Dakota, Texas, Utah, and Wyoming. Arkansas, California, Colorado, Delaware, Louisiana, New Hampshire, New Mexico and Wisconsin were in the process of developing telemedicine projects. NRRI, "Aspects of Telecommunications Reform: Results of a Survey of State Regulatory Commissions", NRRI 95-05, February 1995.

urban.

The Census Bureau definition of urban should be changed to all territory, population and housing units in urbanized areas and in places of 25,000 or more population outside of urbanized areas. All other areas, including areas served by rural telephone companies as defined by the Act, should be classified as rural. This change will ensure that health care providers in rural areas receive the benefits intended by the Act and that all areas served by rural telephone companies are included. It relies upon information that is publicly available, is easy to administer and is consistent with the definition of rural as it relates to telephone companies.

In order to ensure that rates charged to rural health care providers are reasonably comparable to the rates charged for similar services in urban areas within the state, the rates for rural health care providers should be equal to the statewide average of the rates for the particular service requested. The statewide average rate would meet the requirement to offer rates that are reasonably comparable because it would be based upon the statewide average in both rural and urban areas. A separate federal fund should be used to recover the difference between the reasonably comparable rate that rural health care providers are charged and the rates that are charged for the same service to other rural customers, as required by the Act. Adoption of this recommendation will eliminate the need for any additional guidelines.

Eligibility for support pursuant to § 254(h)(1)(A) can be handled the same as in § 254(h)(1)(B) which permits either a direct reimbursement or an offset to contributed amounts, so long as the telecommunications provider has not been exempted from contributing to the support mechanism. Providers should not qualify for the exemption set forth in § 254(d) when they are permitted to receive funding pursuant to the Act. Equitable and non-discriminatory participation in the universal service support

mechanisms should not allow recipients to be exempted from contributing.

Further, it is essential that the FCC strictly enforce the provision of the Act which prohibits the resale of any of the special services provided through the universal service support mechanisms. If not, telecommunications providers offering discounted services will be, in effect, subsidizing non-eligible users.

C. Access to Advanced Services for Schools, Libraries and Health Care Providers.

As technology evolves, the proceeding required in § 706 as well as the periodic review of all the universal service definitions should be employed to ensure that the principles of the Act are fulfilled. While § 254(h)(2) requires that advanced services be provided in a manner which is technically and economically reasonable, it does not require that advanced services which do not qualify as special services be discounted or that the rates for advanced services provided to rural health care providers be reasonably comparable to the rates charged to urban health care providers. § 706 also requires that the FCC consider incentives to ensure that access to advanced services is available in particular to schools, libraries and health care providers, in a manner which serves the public interest. The rules to be developed in this section should be considered as part of the FCC's § 706 proceeding. If dealt with in the same proceeding, the requirements of these two sections can be considered and resolved in a manner which is consistent with the principles of the Act.

No special requirements for interconnection to individual customers should be promulgated. The feasibility and circumstances under which this can be accomplished should be determined by the entities involved to resolve on terms and conditions which are amenable to both.

III. SUPPORT FOR RURAL, INSULAR, UNSERVED AND HIGH COST AREAS.

A. The Core Services for the Preservation of Universal Service.

The core set of services which should be supported to preserve and advance universal service

initially should include: voice grade access (residence and business) to the public switched network to enable a customer to place and receive calls (loop, switching and transport); touch-tone; single party service; white page directory listing; access to operator services and directory assistance and access to emergency services (such as 911/E911). These services meet all four of the criteria contained in §254(c)(1).[17] These services do not require a specific technology and should not present unreasonable technical barriers to entry for new competitors.[18] However, the FCC could allow a grace period to permit telecommunications providers to undertake any upgrades that may be necessary to satisfy the definition. As noted above, no new performance standards should be required other than what is already required by the states and those requirements should be applied to all eligible providers.

This core set of services should evolve as the Joint Board undertakes periodic reviews to ensure that the criteria for the definition of universal service are met. Any change in the core set of services should consider changes in technology, the degree of service deployment, customer demand, whether support is required to promote availability, how additional support needs will be funded and the technical and economic feasibility of including additional services within the core definition. Such reviews should take place at least every five years but no more than every three years to provide sufficient time for the FCC and the Joint Board to assess fully the current environment. During the interval period between reviews, the FCC and the Joint Board should gather data particularly from new entrants on their service provisioning

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[17]USTA's recommendation is consistent with the FCC's proposal except that USTA would include white page directory listing and access to directory assistance within the core set of services. These two services traditionally have been part of basic local exchange service and, as a result, are utilized by a substantial majority of residential customers. They also could be necessary to ensure public safety and are consistent with the public interest.

[18]States should be permitted to include additional services within the core set, however support for the additional state services should be funded exclusively within the state.

and service quality commitments and on their efforts to increase subscribership. Since incumbent exchange carriers will not be able to provide that type of data regarding other eligible carriers, current data sources may not be sufficient to provide regulators with a complete record. Regulators should require other eligible carriers to provide the same data and file the same reports incumbent exchange carriers are required to provide.

No new technical standards are required to assure quality service. The market will provide the best means to enforce quality services in competitive areas. The established standards-setting bodies, as well as the current efforts of NECA and the RUS to assist small telephone companies in maintaining high quality service, can address any specific need to alter current standards.

Further, no additional federal service quality reporting should be required of exchange carriers. The overall intent of the Act is to provide for a pro-competitive, deregulatory national policy framework. Any efforts to increase regulatory requirements are contrary to the overall purpose of the Act. Instead, regulators should be seeking ways to reduce the current regulatory burdens for exchange carriers by eliminating duplicative and unnecessary reporting, consolidating reporting where found to be absolutely necessary and instituting sunset provisions for current requirements.

B. Support Should Be Based on an Affordability Benchmark.

The provision of the core set of services defined above will include both interstate and intrastate costs. The Act preserves the current dual regulatory framework. In order to assist in ensuring that rates for the core services are affordable and reasonably comparable, the FCC and the states should adopt an affordability benchmark which will, in effect, establish a maximum rate that better reflects what customers reasonably expect to pay for telecommunications service. The Joint Board and the FCC should establish an explicit funding mechanism to recover the interstate portion of the loop costs of serving high cost,

insular, rural and unserved areas consistent with the principles discussed above.[19] The interstate costs of providing the core universal services incurred by eligible carriers that are above the benchmark would be considered to be high cost and would produce rates that are unaffordable.

An interstate affordability benchmark equal to the nationwide average loop cost, to replace the current end user common line (EUCL) caps, will ensure affordability and reasonable comparability between the rates in rural and urban areas. The interstate EUCL is currently set at a level equal to the interstate study area loop costs contained in Part 69 or the existing EUCL caps, whichever is lower. EUCL prices should be rebalanced to assist in the removal of implicit support.[20] EUCL prices should be set at a level equal to the interstate service area loop costs or the new interstate affordability benchmark, whichever is lower. In some service areas the EUCL price will be lower than the existing single line or multi-line EUCL prices because they are currently based upon study area average interstate loop costs rather than the new service area costs. In other service areas EUCL prices will increase to the new interstate affordability benchmark level. The impact of these price increases should be examined in the context of the customer's overall expenditures, interstate and state charges, for universal service to determine their impact on affordability.[21]

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[19]Under USTA's proposal, rural telephone companies would also recover high switching costs through bulk billing which reflects weighted DEM.

[20]EUCL prices are currently set at a study area level. Averaging prices across a study area causes prices for low cost areas to implicitly support high cost areas. Telephone companies should be permitted to rebalance prices over geographic areas smaller than a study area to remove this implicit support.

[21]For example, a total expenditure of $28 for telephone service represents approximately one percent of the national median household income for the U.S. (A total expenditure of $18 represents approximately .6 percent of median household income levels.) Given that today Americans spend, on average, approximately 2 to 2.5 percent of income on total telecommunications services and

In order to better assure affordability in rural areas, the current USF and DEM weighting should be continued for rural telephone companies only. The continuation of these programs will provide an additional means to assure that affordable prices are available in those high cost, insular and rural areas served by rural telephone companies that lack economies of scale and scope to deaverage their prices over their service areas. These programs are explicit funding mechanisms which meet the requirements of the Act. They should be available to rural telephone companies in addition to the interstate high cost funding described above.

C. Calculating the Support Amount Using an Affordability Benchmark.

In addition to ensuring affordable and reasonably comparable rates, a nationwide average benchmark is administratively simple. All loops would be treated the same, regardless of whether the loops connect a business or residential customer. Such treatment will ensure that this support mechanism is technology neutral. It will accommodate the addition of advanced services to the core definition as well. Use of the nationwide average loop cost meets the FCC's goal to minimize the implicit subsidy required to ensure affordable and reasonably comparable rates.

Since in non-rural telephone company areas multiple eligible carriers will be permitted upon

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approximately .6 percent of income on basic local exchange services, an average spending level of one percent of income for universal services is a very reasonable expectation. (See, Federal Communications Commission, "Trends in Telecommunications", Table 8, May f994 at p. 13.) Overall, customers would continue to spend 2 to 2.5 percent of income on their total telecommunications as the prices of non-universal services would be reduced as a result of replacing implicit support with explicit funding. Moreover, a one percent spending level looks quite reasonable when compared to other services. For example, consumers, on average, spend more than four percent of income for residential energy consumption (U.S. Energy Information Administration, "Household Energy Consumption and Expenditures, 1990".) and more than five percent of income for food away from home. (U.S. Bureau of Labor Statistics, "Consumer Expenditures in 1991", BLS Report 835, December 1992.) Low income assistance would continue to assist those for whom the benchmark level could not be achieved.

request, other eligible carriers should receive the same level of support per line as the incumbent exchange carrier. In rural telephone company areas, multiple eligible carriers will only be permitted if it can be shown that to do so would be in the public interest. If such a determination is made, those carriers should be required to receive support based upon their own costs.[22] In no case should the other carrier's support exceed the incumbent exchange carrier's support per line.

The amount of interstate high cost per working common line would be calculated by the incumbent exchange carrier.[23] For non-rural exchange carriers, this calculation should only occur when the new funding mechanism is implemented, after which the amount would remain frozen. Any eligible telecommunications carrier will receive this level of support for each customer served.[24] In a rural telephone company service area the amount of interstate high cost per working common line would be calculated annually by each eligible telecommunications carrier serving the area.

Universal service support should be based on Part 36 and 69 embedded costs, regardless of

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[22]Only the incumbent, rural telephone companies should be permitted to participate in the current USF and DEM weighting programs. The Act does not assume that allowing multiple eligible carriers to receive support in rural areas is in the public interest. Such a finding must be proved. In addition, competition is not likely to develop in rural areas at the same pace as in urban areas. There is no need to impose more costs on the interstate jurisdiction by allowing additional carriers to participate in the current USF and DEM weighting programs. Thus, other eligible carriers should only be eligible for the high cost funding above the benchmark as described above.

[23]Interstate high cost support per line would equal the difference between the amount of interstate loop costs per line for the service area and the benchmark level.

[24]When multiple eligible carriers are permitted, only the carrier that serves the customer (either the end user or the reseller) receives the support. When an eligible carrier resells the incumbent exchange carrier universal service package, the incumbent should continue to receive support for providing the package of services and the eligible carrier receives the discounted resale price. When an eligible carrier purchases unbundled network components at the market price to provide universal service, the eligible carrier would receive support.

whether actual or proxy costs are developed. As the FCC suggests, an area no larger than a wire center should be used as the geographic area for calculating universal service support for non rural telephone companies. While the serving area for rural telephone companies should remain a study area unless the conditions required by the Act are met, rural telephone companies should have the option to deaverage universal service support amounts below the study area level.

A price out of USTA's proposal is included in Attachment 3.

D. A Transition Plan Will Be Required to Avoid Possible Rate Shock.

The interstate universal service funding plan described above should be implemented over a four year period. EUCL prices should be rebalanced over the four year period. As EUCL prices are rebalanced, interstate carrier common line (CCL) prices will be adjusted to recover the difference between the EUCL price and the interstate affordability benchmark. Interstate CCL will decrease as EUCL prices are rebalanced over the transition period and will be eliminated at the end of the transition.[25]

Long Term Support (LTS) should continue to recover the difference between the nationwide average interstate CCL price calculated during the transition period and the interstate CCL price for exchange carriers participating in the NECA common line pool. LTS will decrease as EUCL prices are rebalanced and the interstate CCL decreases over the transition period. LTS will be eliminated at the end of the transition.

USF and weighted DEM for non-rural telephone companies should be frozen during the transition and eliminated thereafter. The cap on the USF should be allowed to expire.[26]

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[25]USTA's recommended plan addresses the issues raised by the FCC in its discussion of other mechanisms to remove implicit support at ¶¶ 112-115 of the Notice.

[26]See, USTA Comments filed October 10, 1995, CC Docket No. 80-286, at pp. 31-32.

E. Eligibility for Universal Service Support.

The FCC's proposal to change the definition of study area would defeat the purpose of § 214(e)(5) of the Act which gives the states the authority to establish the service area for purposes of determining universal service and retains the current study area as the appropriate universal service area for rural telephone companies. Study area should continue to be an option for rural telephone companies, although these companies should also be allowed to petition their state to use a smaller area if desired.

Consolidation of study areas would prevent the FCC from targeting high cost areas. The use of smaller geographic areas for purposes of measuring the costs to provide universal service will permit more efficient funding by more closely identifying the high cost areas and by directing funding to those areas where costs exceed the affordability benchmark. These areas cannot be accurately identified at a study area level because of cost averaging. This is particularly true in non rural telephone company study areas. Consolidation of study areas would only serve to exacerbate this problem.

The FCC also seeks comment on how to implement § 214(e)(1)(B) which requires eligible carriers to advertise the availability of universal services and the charges for those services. The FCC could set guidelines similar to § 61.58(a)(4) of its current rules. However, the rules must be applicable to all eligible carriers.

F. Universal Service Support for Unserved Areas.

§ 214(e)(3) of the Act gives state and federal regulators the authority to require carriers to provide universal service in previously unserved areas. This section should be applicable only when no carrier voluntarily provides service. Regulators should specify that the unserved area is a unique universal service area for purposes of universal service support, and should not combine an unserved area with any established universal service area. Areas that are unserved are typically extremely high cost areas in that